

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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FISCAL IMPACT STATEMENT

LS 7031

BILL NUMBER: SB 278

NOTE PREPARED: Feb 26, 2004

BILL AMENDED: Feb 16, 2004

SUBJECT: NAICS information.

FIRST AUTHOR: Sen. Simpson

FIRST SPONSOR: Rep. Klinker

BILL STATUS: As Passed House

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill requires the Department of State Revenue to collect and maintain information for all retail merchants concerning the merchants' industry codes under the North American Industry Classification System Manual.

Beginning in 2005, the bill requires each person that owns or operates a vending machine to annually submit certain information to the Department of State Revenue.

Effective Date: January 1, 2005.

Explanation of State Expenditures: *NAICS Information:* The impact of collecting and maintaining NAICS information on the Department of State Revenue (DOR) will largely depend upon its administrative actions; however, it is estimated that the Department could absorb any additional costs associated with the bill using existing staff and resources.

(Revised) *Vending Machine Information:* This bill will requires owners and operators of vending machines to annually submit information on the number of vending machine operated, the business address of the operator, and the name of the retail merchants that are liable for paying the Sales Tax on items sold through a vending machine. The bill specifies that the vending machine operators must submit the information on the form provided by the Department. Depending on how the Department administers this provision, it could cause an increase in the Department's administrative and postage costs. If the Department were to mail the forms separately to the approximately 167,000 registered retail merchants in the state, postage costs are estimated to be approximately \$80,000 each year. The actual annual cost will largely be determined by the manner in which the Department supplies the forms and accompanying information to the retail merchants.

The funds and resources required above could be supplied through a variety of sources, including the following: (1) existing staff and resources not currently being used to capacity; (2) existing staff and resources currently being used in another program; (3) authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) funds that, otherwise, would be reverted; or (5) new appropriations. In FY 2003, the Department reverted \$2,818,250. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions.

Background Information on NAICS: A portion of retail merchants currently registered in Indiana are categorized in DOR records based on the Standard Industrial Classification (SIC) codes. The SIC system was used by government and industry until it was replaced in 1997 by the North American Industry Classification system (NAICS). In some cases, it is possible to directly link all of the business types listed under one SIC code to a single corresponding NAICS code. However, many businesses currently classified under the one SIC code also correspond to a number of different NAICS codes. As such, it is presumed that the Department will be required to develop a method of collecting NAICS codes directly from merchants currently categorized under the SIC system.

The DOR requires new Indiana retail merchants and other businesses completing the DOR's Business Tax Application to include the North American Industry Classification System code that best categorizes the applicant's business type. (A listing and description of the NAICS codes is included with the application.) Applicants who neglect to include this information on the application would be asked directly by the Department to include the information. An electronic version of the Business Tax Application requires NAICS information to be included before the application can be submitted to the Department.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Tom Conley, Department of State Revenue, 232-2107; www.in.gov/dor/electronicsservices

Fiscal Analyst: John Parkey, 317-232-9854.